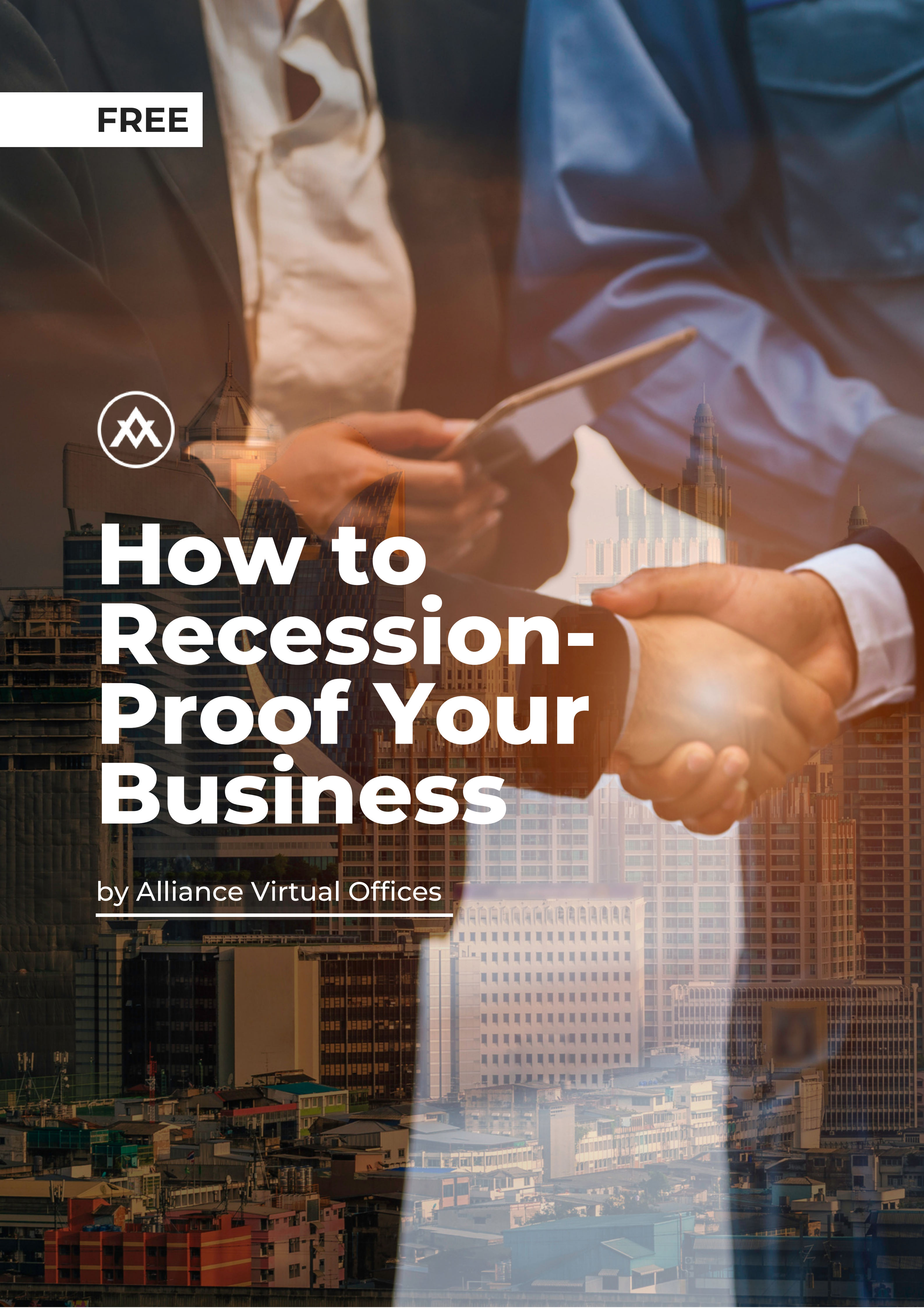

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How to Recession-Proof Your Business

by Alliance Virtual Offices

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Introduction

The recession of 2020 was the deepest since World War II. Did you know that it was also the shortest?

It lasted just two months: March and April 2020.

Still, the economic effects of Covid-19 were **brutal on businesses** and livelihoods.

Every recession leaves an indelible **mark**, and this one will be felt for many years.

So, the question is, can businesses avoid them?

Is there a way for businesses to prepare for economic decline and insulate themselves from the worst impact?

Can entrepreneurs effectively recession-proof their businesses?

While there is no magic wand, certain techniques can help businesses prepare for a recession and gain protection.

This guide explains how to do it.

SECTIONS

SECTION ONE

Recession vs. Depression

Before we begin, let's get clear about the terminology.
Why is this important?

In the summer of 2022, politicians, economists, and market professionals were locked in debate about whether or not the U.S. economy was in recession.

Strange as it may seem, the argument essentially boiled down to how the word 'recession' is defined.

So, let's define it:

> A **recession** is a widespread economic slowdown that impacts businesses and individuals of all sizes and economic positions.

It is often recognized as a decline in real (inflation-adjusted) gross domestic product that occurs over two consecutive quarters.

However, according to the IMF, short periods of decline are not customarily considered recessions. Also, a focus on GDP alone is too narrow.

Similarly, the NBER states that a recession involves "a significant decline in economic activity that is spread across the economy and lasts more than a few months."

So while the two-month contraction in 2020 was very short, it was still classed as a recession due to the extreme and rapid drop in economic activity.

2022 has not (yet) been officially classed as a recession, even though the U.S. economy did contract for two consecutive quarters. This is because of a combination of other positive factors, including a strong labor market and corporate earnings growth.

How does a recession differ from a depression?

> A **depression** is commonly defined as a more extreme version of a recession.

Generally, although there is no standard definition, a depression is marked by significant trends in job loss, profit loss, and slowdowns in production.

Depressions also tend to be more widespread, affecting the global economy rather than just the national economy.

SECTION TWO

What Businesses Get Wrong During Recessions

This section will focus on what not to do when facing a recession.

Most firms suffer during a recession because demand (and revenue) falls and uncertainty about the future increases.

The secret isn't to stop spending but to reprioritize your spending and find meaningful solutions.

Here are some mistakes that businesses frequently make during these challenging times:

Unsystematic spending cuts.

Facing recession and under pressure, business owners immediately slash their budgets in a bid to stay afloat.

While some spending cuts will probably be necessary, an unsystematic approach will most often land the business in trouble.

First (and **before** making any budget decisions), conduct a spending audit.

Certain expenses may have slipped out of control.

"I think the average small business could reduce their expenses by 20% without feeling a pinch," said Carissa Reiniger, founder and chief executive of Silver Lining, a small business advisor and lender.

Analyze business expenses over recent months to identify areas where you can make small, meaningful cuts. Pay attention to unused or underutilized subscriptions, such as apps, software, or networking groups.

Staff layoffs.

While cutting back your workforce is sometimes necessary, layoffs can make it much harder to come out of the recession.

With fewer hands to help, business operations take a major hit. Customer service drops, important duties fall through the cracks, and your remaining people become overwhelmed.

This leads to poor performance, stress, low productivity, and resignations. As a result, it hurts the business's ability to maintain its sales through an economic slowdown.

Additionally, if your business reaches the other side of the recession, you are forced to rebuild the team from scratch. This can be a long, time-intensive process.

Negative employee reviews may also make it more difficult for a business to attract the same level of talent on the other side.

If you must target your workforce, try alternative measures before making layoffs:

- ✓ Put promotions and raises on hold
- ✓ Freeze new hires
- ✓ Research any available government programs or tax deferrals
- ✓ Offer solutions such as temporary job-sharing and salary roll-backs (rolling back salaries to the previous amounts pre-raise)
- ✓ Finally, ask everyone to take a temporary pay cut. It won't be popular, but most employees will prefer earning less than being laid off.

Marketing cuts.

Another major area that sees funding cuts is marketing.

Marketing might seem like low-hanging fruit. But although you may save a little in the short term, you will likely cripple your business in the long run.

Frank Cottle, CEO of Alliance Virtual Offices, warns against cutting back on marketing during challenging economic periods.

“A lot of businesses cut their marketing budgets back. Or they simply leave it and don’t change their strategy to suit the times. Your marketing should speak to the situation, not just the customer.”

During recessions, consumers migrate. Perhaps they go to a cheaper competitor or switch to an alternative solution. “Figure out how to position your business to be in that migratory path,” Cottle added. “Use your marketing to build a value proposition that snags them.”

Marketing is all about visibility. If you reduce your marketing budget, you decrease how often your customers see you. Out of sight becomes out of mind, allowing your competitors to move in.

Another reason to maintain your marketing activities is to attract new consumers.

During recessions, loyal customers are often forced to stop making purchases. Therefore, it becomes essential to attract and nurture new leads.

While you shouldn’t stop marketing, you may need to change what you spend your marketing budget on.

Take the example of Singapore Airlines during the Covid-19 pandemic.

Flights were grounded and travel stopped. The company couldn't actively sell flights, but it invested in the future through a marketing and branding campaign that tapped human emotion.

The company shared stories of how its grounded crew was redeployed to help the community deal with the outbreak.

They used their skills to become care ambassadors, nursing assistants, to deliver meals, assist with crowd control at transport hubs, and ensure compliance with safe distancing guidelines.

This painted the brand in a positive light and served to remind travelers that they can trust the airline to look after them during challenging times and in the future.

Unhealthy finances.

It may sound obvious, but it pays to keep your company's debt as low as possible.

Companies with high levels of debt are especially vulnerable during a recession.

A 2017 study by Xavier Giroud and Holger Mueller found that the link between business closures, higher unemployment, and falling housing prices was most pronounced among companies with the highest levels of debt.

The vast majority of businesses that shuttered because of falling demand were highly leveraged.

Higher debt demands more cash for interest and principal payments. But when revenue drops during a recession, the defaulting risk intensifies.

According to Walter Frick, writing for HBR:

"To keep up with payments, companies with more debt are forced to cut costs more aggressively, often through layoffs. These deep cuts can impair their productivity and ability to fund new investments. Leverage effectively limits companies' options, forcing their hand and leaving them little room to act opportunistically."

Takeaways

Here's a quick overview of how to avoid some of the most common mistakes businesses make during a recession:

- Carry out a spending audit.
- Make small but meaningful cuts.
- Work with your team to request job-sharing or temporary pay cuts, rather than layoffs.
- Adapt your marketing message to match the current climate.
- Adjust your marketing spend and activities.
- Reduce debt, reduce vulnerability.

SECTION THREE

Should You Pivot in Times of Economic Distress?

Pivoting in business means changing direction. This could mean changing some aspects of your core products, services, or business operations.

It could be a long-term redirection or a short-term change in response to a crisis such as Covid-19.

Any form of pivot is a huge decision with massive consequences.

Use data-driven decisions when considering pivoting your business. Review your financial trends and evaluate forecasts before making any significant changes in your business.

? If you decide to explore change, ask yourself:

What do people need most right now?

How can you fulfill that need with your existing resources?

A good place to start is your target audience and how you market to them.

Does your messaging resonate with your consumers?

For example, let's say you market to startup founders. Your messaging should be finely tuned to their current situation, including the wording used on your website, emails, newsletters, blogs, chat messages, and everything else.

If you write content that subtly assumes they are more established – for example, that they have dozens of employees – you are probably missing the mark.

Your audience won't be able to relate to your brand and will soon slip away.

Carry out a content audit and take a close look at your messaging. Put yourself in your consumers' shoes or, better still, ask someone who fits your target demographic to analyze it for you.

Consider hiring a freelance marketing or content professional to make adjustments.

Freelance skills can fill gaps in your business quickly and easily. It's a budget-friendly way to get the help you need at a pre-agreed hourly rate or on completion of tasks.

Read our guide to learn more: **Hiring Freelancers: Tips for Small Businesses**

Now let's consider the pivot.

Is your target market the right one?

Continuing the startup example, startups are big in number but fail frequently. Two-thirds of startups never show a positive return.

When facing a recession, this might not be the most lucrative group of consumers.

Can you expand your target audience?

Market research will help you to understand whether you can attract different demographics. This will also highlight additional product opportunities.

As for pivoting your business operations, there are ways where you can successfully cut costs.

One example is shifting from a brick-and-mortar store to online sales.

In the same vein, shifting from a physical centralized workplace to a remote work setup can generate huge savings.

Cutting that cost can save you hundreds of dollars a month. That money can help you reach new customers outside your locality and keep your business going.

$20-50k

In fact, businesses like law firms can save an average of $20-50k per year.

85%

Additionally, 85% of businesses report remote work increases productivity.

Without the costs of a physical store, you may be able to pass on cost savings to your consumers – and undercut your competition.

Shifting to online sales and operations saves money and creates a more agile business. It enables you to react to market conditions faster, tapping new opportunities in the process.

“The underlying message across all areas is that recessions are a high-pressure exercise in change management, and to navigate one successfully, a company needs to be flexible and ready to adjust.” - Walter Frick, HBR

Takeaways

Here’s a quick overview of what to consider when pivoting your business during a recession:

- Pivoting can apply to your core products, services, or business operations.
- It could be a long-term redirection or a short-term change.
- Analyze your target audience and how you market to them.
- Audit your marketing messages and content.
- Consider expanding your target audience.
- Save money by switching from a physical workplace to a remote work setup.

SECTION FOUR

How to Set Your Business Up for Success During Times of Prosperity

As we mentioned before, companies with high debt levels are especially vulnerable during a recession.

The sooner you run your business through a financial health check, the better.

Even if the economy escapes recession for now, it will happen eventually. If you want your business to succeed over time, you'll almost certainly face a recession at some point.

Here are some ways to plan ahead and set your business up for success:

#1 Financial health check.

According to 2021 statistics, 26% of SMEs reported having no outstanding debt. The remaining 74% are in debt from a few hundred dollars to 1 million dollars plus.

Not all debt is bad news. Some debt is "part of a healthy part of any sustaining enterprise when leveraged appropriately," states small business funding advisor Kedma Ough.

The focus is on reducing debt and, by extension, its potential for adversely impacting company stability.

Assess the interest rates you're paying on your debt, and consider paying down the highest first.

But remember that paying off debt depletes your cash reserves. Ensure you have enough to maintain business operations if you experience cash flow problems down the line.

Among Ough's recommendations to reduce debt are renegotiating and restructuring loans with existing lenders, aiming to reverse or reduce administrative fees, lower interest rates, or change payment schedules.

Ough also recommends focusing on collecting outstanding payments owed to your company and considering enforcing shorter payment terms (for example, net 30 days as opposed to net 90 days).

However, be mindful of the impact this will have on your clients. It may be worth retaining flexibility with specific clients to maintain loyal relationships.

#2 Keep your finger on the market's pulse.

To remain truly recession-proof, you must keep a close eye on the market.

Even if the economy escapes recession for now, it will happen eventually. If you want your business to succeed over time, you'll almost certainly face a recession at some point.

How strong is your position? Will consumers remain loyal if a recession hits?

Offering cheaper versions of your products gives you wiggle room when the economy slows down. You can market yourself as the affordable choice when people can't afford to buy premium products.

Remember, recessions don't eliminate need, just funding.

By having a product ready to serve that market, you can expand into the new market of people looking to save money, readily using the situation as a chance for growth.

#3 Conserve cash.

Businesses that operate well outside of recession should take the opportunity to prepare for an eventual downturn.

Even if projections are optimistic, be conservative, and conserve cash.

You might choose to keep reserves in a high-yield savings account, like Keith Gebert, RightBridge Financial Group:

"I keep an emergency savings account for the business. It is invested in a high-yield money market account. My staff will always review our expenses on a quarterly basis and make sure we are not overspending on business items."

#4 Build up your online presence.

Focus on creating a robust online presence and infrastructure.

Even if your business is primarily local, having an online shop, social media pages, a blog, and other important online elements will allow you to transition quickly to online sales if your local market suddenly dries up.

Online marketing, and especially content marketing, is a long game.

Regularly publishing helpful, relevant content on your website and social media channels will increase engagement, strengthen your online presence, and improve online search results.

Read more: Affordable SEO Tactics for Small Businesses

Here's why good content is essential:

- It will engage your target audience (and help expand your audience, if needed).
- It will help your business stand out from the crowd (everyone has a blog; you need to cut through the noise).
- It will help increase brand awareness.
- It will help position your company as an expert or thought leader.
- It will help your website's search ranking.

Read more: Small Business Blog: Finding and Creating Good Content

#5 Diversify your revenue stream.

Why wait for a crisis to diversify your income?

When times are good, consider investing in new products or services that can strengthen your market position and introduce additional sources of revenue.

Research, development, product launches, and marketing campaigns are expensive. That's why it pays to explore these options when your business has cash in the bank.

Read more: The Key to A Recession Proof Business? More Revenue Streams

Katherine Jackson, Bayer Properties, LLC, found this approach paid off when they needed it most:

> "Diversifying your revenue stream can be a key component to reducing your company's risk of recession. Our organization started life as a real estate developer. When the 2008 crash hit, development work came to a standstill. Because we had diversified into management and leasing, we survived an economic event that had a devastating impact on some of our undiversified competition."

Of course, diversification doesn't always mean a brand-new product. You could also consider introducing new pricing plans to provide more affordable options.

For example, suppose you primarily sell premium or luxury goods. In that case, you can offer a downgraded, budget-friendly version of the same product to cater to consumers during a recession.

#6 Take a closer look at the value of your offering.

Consider where the real value lies in your service offering and how it might be optimized to appeal to your existing – or new – customers.

“A hotel can be 100% full but still be bankrupt because they didn’t provide a good café or restaurant,” says Alliance’s CEO, Frank Cottle. “These amenities can also cater to business meetings, which is another valuable service and revenue generator.”

Without that catering option, potential clients will move on to the next hotel or meeting venue.

Therefore, in this example, the real value for a specific (and high-value) segment of the target audience isn’t necessarily a hotel room, but a meeting room with onsite catering and hospitality.

It’s also important to manage pricing and discounting.

A lower-value product or service with a higher margin can be a valuable foot in the door.

Rather than discounting premium products or services, consider selling cheaper options first, because consumers may upgrade with time.

If you upsell too soon, the client will be overstretched financially and may only remain your client for a short time.

Remember, it’s your job to provide services that help your customers in some way. By helping them spend the least and get the best value, they are likelier to remain loyal to you.

Takeaways

- Take a financial health check and work on reducing ‘bad’ or high-interest debt.
- Keep a close eye on the market and consumer demand.
- Conserve cash.
- Build your online presence to attract a wider target audience.
- Diversify your revenue through new products or pricing plans.
- Rather than discounting premium products or overselling, look at ways to offer cheaper versions – this will encourage loyalty and future upgrades.

SECTION FIVE

Tools

There are certain tools entrepreneurs need when running a business to assist with saving time and efficiency.

They will become even more important to help you prepare for economic challenges.

These include:

- **Email marketing management.**
  Tools like AWeber, Hubspot, and Mailchimp manage your email lists. You can easily build email campaigns from templates, send them to segmented audiences, and monitor KPIs and other metrics.

- **Website builders.**
  If your website needs a refresh, or you don't have one yet, tools like HostPapa, Webflow, Squarespace, and Wix make it easy to build your own. Consider enlisting the help of a freelance web designer to help you get started.

- **Payment processors.**
  This is how you get paid. You can use either hosted payment gateways (through websites like PayPal) or self-hosted payment gateways on your own site. Learn more about ecommerce platforms in our guide.

- **Accounting and bookkeeping.**
  A robust bookkeeping tool will save you countless hours managing invoices, receipts, and taxes. Some of the best-known are Intuit Quickbooks, Xero, and Mazuma. Learn more about accounting tools in our guide.

- **Payroll.**
  Websites like Resourcing Edge, Paychex, and Gusto allow you to automate the time-consuming task of handling payroll while protecting against errors.

- **Video calls.**
  Zoom made a big name for itself during the pandemic, and it's clear that video conferencing is here to stay. It's a great way to reduce business travel expenses and collaborate efficiently with clients and colleagues. Other options include Streamyard and Airmeet.
- **CRM.**
  Customer relationship management is always essential – especially during a recession. It enables you to capture customer information, identify new sales opportunities, build new marketing funnels, and more. Examples include Hubspot, Scoro, Salesforce, Accelo, and Insightly.
- **SEO.**
  There are many helpful tools to help you develop and implement an SEO strategy. Use Ahrefs for keyword research and Google Search Console (GSC), which is offered free to everyone with a website, to understand how your website is ranking and what you need to do to improve your on-page SEO. SEMrush provides in-depth reports on your existing content and site and helps to identify new opportunities.
- **Social media.**
  Each platform offers its own user analytics, but you can dig deeper and streamline content creation and scheduling with tools like Zoho or HootSuite.

Take a look at the Alliance Marketplace for more recommended business services and automation tools.

Modernizing Your Business

Other online tools may be less obvious, but certainly no less advantageous.

Alliance Virtual Offices offers a range of services that can cut costs on traditional office space and business services while streamlining your business operations.

These Alliance VirtualOffices services include:

Virtual Office

Rather than renting a physical office, work from home (or from anywhere) and maintain your business by renting an office address.

A Virtual office provides a company address with secure mail services, onsite receptionist support, and easy access to on-demand meeting or office space. It's a cost-efficient, flexible workspace solution designed for remote businesses.

With this option, you can register your business in any state, reducing tax obligations and saving money during difficult times.

Live Receptionist

This remote receptionist service provides live call answering and appointment scheduling up to six days per week.

It's a cost-efficient way to maintain a high level of customer service within your organization while also strengthening client relationships and loyalty – a necessity at any time, especially during a recession.

Plans are flexible, and since the operation is remote, businesses save money by avoiding the cost of a full-time employee. It also includes a full Virtual Phone service.

Virtual Phone

A Virtual Phone provides a local or toll-free phone number with a VoIP business phone system.

As a web-based solution, entrepreneurs can continue taking calls from their smartphones without revealing their personal phone number.

The VoIP system provides a powerful range of features to manage calls professionally, including caller menus, voicemail by text, branded greetings, unlimited extensions, and more.

Mail Forwarding

Mail forwarding means that your home address never becomes overwhelmed with business-related mail, and you can promote a sense of privacy and security in your living space.

You can rent meeting rooms and flexible workspaces on a simple hourly basis, allowing you to meet face-to-face with team members, leads, and shareholders when necessary.

Conclusion

While 2022 hasn't yet been labeled a recession year, there is an increasing likelihood that the U.S. will enter a recession very soon.

One model states that a U.S. recession is "effectively certain" in the next 12 months, while Goldman Sachs Chief Executive Officer David Solomon told Reuters that it's more like "a reasonable chance".

Even if it doesn't materialize this time, recessions are unavoidable.

Knowing that, you have a valuable opportunity to prepare your business and financial strategy for any future economic slowdown.

We hope this guide proves useful in helping to insulate your business, maximize your resources, and pave the way for future growth.